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via electronic mail and USPS delivery

Ms. Janette Lopez
Chief Deputy Director
California Managed Risk Medical Insurance Board
1000 G Street, Suite 450
Sacramento, CA 95814

**RE: EVALUATION OF SAFEHEALTH LIFE INSURANCE CO MEDICAL LOSS RATIO
SUBMISSION**

Dear Ms. Lopez:

The Department of Managed Health Care (DMHC) hereby provides the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP) with the following report regarding the evaluation of SafeHealth Life Insurance Co (SLIC) HFP loss ratio submission for the period July 1, 2005 through June 30, 2006. This report outlines the project objectives, methodology and results.

- I Objectives: The purpose of the loss ratio evaluation was to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers and reported by SLIC.

As part of this evaluation, DMHC performed the following:

- A Determined whether 100% of the children who received services paid by SLIC were enrolled in the HFP at the time the services or capitated coverage were provided
- B Summarized the total capitation and benefit payments within the detailed data provided by SLIC and compared the total payments to the amount reported on Schedule 6 submitted by SLIC
- C Summarized the total payments made by SLIC for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SLIC on Schedule 6.

To achieve the objectives outlined above, DMHC performed data analysis on information provided by MRMIB and SLIC and corresponded with management personnel at SLIC. Primary contacts at SLIC were Dennis Gates, CFO; Joe Lai, Accountant.

II Methodology

- A Determined whether 100% of the children who received services paid by SLIC were enrolled in the HFP at the time the services were provided.
 - 1 DMHC obtained electronic files containing Fee-For-Service (FFS) claim payments made for HFP subscribers. Additionally, the Department obtained electronic files from MRMIB

of all children eligible for services as an SLIC subscriber during the period of July 1, 2005 through June 30, 2006.

- 2 Using the two files, DMHC compared the Client Index Number (CIN) and Date of Service on SLIC's FFS files to determine if there were any payments made by SLIC for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB (please see Table 1).

Table 1 –Fee for Service payments for individuals that were not listed in the MRMIB file during the service period.

Table 1

Claims/capitation payments Category	Number of claims/services payments	Dollars (footnote 1)
Fee-for-Service Payments	7	\$356
Total	7	\$356

The amounts are not material and no corrective actions were proposed to SLIC.

B Summarized the total benefit payments within the detailed data provided by SLIC and compared the total payments to the amount reported on Schedule 6 submitted by SLIC.

Using electronic files and paper documentation received from SLIC in Section II above, and SLIC's Schedule 6 (Sch. 6) loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files and paper documentation to the data reported on Schedule 6. Data comparisons are exhibited in Table 2 below.

Table 2

Description	Sch 6	Plan Data	Difference
Combined Med Exp (Exams, Frames, Lenses, Contacts and Other)	\$242,145	\$196,148	\$45,997
Total	\$242,145	\$196,148	\$45,997

C Summarized the total payments made by SLIC for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SLIC on Schedule 6

Footnote 1: This analysis represents payments made by the Plan to their contracted providers and not payments made by MRMIB to the Plans.

Table 3
Detailed reconciliation of detailed data files to Schedule 6

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER/(UNDER)
	Subscriber Months ^{Note 1}	123,321	135,403	12,082
1	Premium Payments from State ^{Note 2}	\$303,124	\$303,124	\$0
2	Incentive Payments to Affiliated Parties	\$0		\$0
3	Incentive Payments to Nonaffiliated Parties	\$0		\$0
4	Total Incentive Payments	\$0		\$0
	Expenses			
	Vision Services			
5	Exams ^{Note 3}	\$106,691	\$196,148	(\$45,997)
6	Frames & Lenses	\$120,275		\$0
7	Contact Lenses	\$10,241		\$0
8	Other Services	\$4,938		\$0
9	Reinsurance Expenses			\$0
10	Incentive Pool Adjustments			\$0
11	Total Vision Services	\$242,145	\$196,148	(\$45,997)
A	Gross Profit	\$60,979	\$106,976	
B	MEDICAL LOSS RATIO	79.88%	64.71%	
<p>Note 1: MRMIB data includes members enrolled after the 15th of the month and retro eligibility information which was distributed from Maximus. Expectation on subscriber months was that balance per DMHC review would exceed the membership count reported by the Plan due to flaws in the MRMIB data count.</p>				
<p>Note 2: Included in the premiums received from MRMIB by the Plan are retro adjustments for prior periods and missing are retros for the current period which would not have been received until subsequent periods. The examiners data utilized for the review adjusts for these missing elements causing the minor discrepancy from the Plan's unadjusted data. Amount per Plan is accepted as reported.</p>				
<p>Note 3: Adjustment is measured by the difference between the Plan paid claim data base and the amounts reported on the Schedule 6. The adjustment represents corrections to IBNR, DMHC license fee, UM/QA, accrual differences, and lenses not covered under the HFP.</p>				

III Summary of Findings


- 1 IBNR overstatement per Plan - \$22,885
- 2 DMHC license fee disallowed - \$6,161
- 3 UM/QA adjustment per Plan revision - \$6,161
- 4 Special purposes lenses in database - \$6,295
- 5 Sch 6 v. Database, unsupported expense - \$4,495

IV Limitations

This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by SLIC on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call Steven Mihara, DMHC Supervisor with any questions pertaining to this report.

Sincerely,



Steven Mihara, Supervisor
Division of Financial Oversight

cc: Hao Lam, Acting Chief Fiscal Services, MRMIB
Mark Wright, Chief Examiner, DMHC
Stephen Babich, Supervising Examiner, DMHC